

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1991 Through December 31, 1992

Schedule Of Findings

1. Internal Controls Over Accounting Records Should Be Improved

The town's accounting records are not properly maintained and not reconciled in a timely manner. The following weaknesses were noted.

- a. Authorization, custody, and recording duties of the accounting systems are not segregated.
- b. Prior to our audit, the cash and investment records had not been reconciled to bank records for over three years.
- c. Transactions of the Sewer Construction Fund were not recorded in the town records.
- d. Financial transactions of the other funds were sometimes incorrectly recorded and in some cases omitted entirely.
- e. Interfund transfers were not consistently recorded in both funds affected.
- f. Property tax transactions were not consistently reconciled to the Pierce County reports supplied.
- g. Warrant transactions were not reconciled to bank records.
- h. Investment interest earned is not consistently receipted and posted to the accounts.

These conditions are a result of having a small staff with limited training and the lack of oversight by the elected officials.

The absence of adequate internal controls over the accounting system is a material internal control weakness and results in an accounting system where errors or irregularities could occur and not be detected in a timely manner.

RCW 43.09.200 states in part:

The state auditor . . . shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds

collected, received, and expended for account of the public for any purpose whatever

We recommend the town ensure that adequate internal control procedures are implemented and monitored.

2. The Town Should Maintain Positive Cash Balances

During our audit of the town's cash and investment balances, we noted the following negative cash balances at year end:

1991 Sewer Construction Fund	\$(251,109)
1992 Arterial Streets Fund	(15,888)
1992 Water Utility	(8,591)

The negative balances occurred because cash balances are not being closely monitored before investments are purchased or disbursements are made.

Since deficit cash balances actually represent unauthorized interfund loans, insolvent funds are benefiting from the financial resources of the other funds of the town.

RCW 43.09.210 states in part:

All services rendered by, or property transferred from, one department . . . shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

We recommend that cash requirements and balances be monitored to avoid funds becoming insolvent. We further recommend council approved interfund loans be used when appropriate to keep funds solvent.

3. Town Officials Should Prepare Annual Financial Reports

The town did not complete and file annual financial reports for 1992 and 1991 as required by state law. Our prior audit noted that reports were also not prepared or filed for 1990 and 1989. Certain reports for 1992 and 1991 were prepared for audit purposes in late 1993.

RCW 43.09.230 states in part:

. . . reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

When financial reports are not prepared and filed as required, town officials, bondholders, grantors, and other users are denied information concerning the town's financial condition.

The reports were not prepared and filed because of turnover in the clerk-treasurer position and because the town's records were inadequate.

We recommend the town prepare and file annual reports as required by state law.

4. The Town Should Limit Expenditures To Budget Appropriations

Our audit of the town's budget operations revealed that expenditures exceeded budgetary appropriations in the following funds:

1992	Sewer Construction Fund
	Water Operating Fund
	Water Debt Service Fund
	Water Reserve Fund
	Sewer Operating Fund
	Sewer Debt Service Fund
1991	Current Expense Fund
	City Street Fund
	Water Operating Fund

The overspending of appropriations violates the provisions of RCW 35.33.121 which states in part:

. . . the expenditures of the city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year

Exceeding the budget has the effect of denying the citizens of the town any input into the expenditures of the town. The cause of these budgetary overruns appears to be a lack of diligence by management and the lack of monitoring by town officials.

We recommend the town avoid exceeding its appropriations by authorizing budget amendments when appropriate and establishing oversight procedures to monitor expenditures.

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1991 Through December 31, 1992

Schedule Of Federal Findings

1. The Town Should Implement Administrative Controls Over Federal Programs

The town recently completed construction of a sewer system funded by the U.S. Environmental Protection Agency through the Washington Department of Ecology (CFDA 66.418), the U.S. Department of Agriculture - Farmer's Home Administration (CFDA 10.418), the Department of Housing and Urban Development Community Development Block Grant through Pierce County (CFDA 14.218), and local financing.

As noted in the financial statement finding, controls over the accounting for the sewer project were weak due to limited staffing. In addition, the town did not develop a control structure to ensure compliance with federal requirements relating to political activity, the Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable cost/cost principles, the Drug-Free Workplace Act, administrative requirements, types of service allowed or unallowed, matching, special reporting, and special tests and provisions.

The lack of a strong control structure increases the risk of noncompliance with federal requirements and is considered a material weakness. Despite the lack of administrative controls, the town was able to comply with all of the federal requirements listed above, with assistance and support from the Farmer's Home Administration, the state Department of Ecology and Pierce County.

We recommend the town establish and maintain administrative control procedures that will assure compliance with all federal programs requirements.